

## **Composite Alliance Group Inc.**

Condensed Consolidated Interim Financial Statements  
September 30, 2023  
(In Canadian dollars)  
(Unaudited)

### **Notice to Reader**

The accompanying unaudited condensed interim financial statements of Composite Alliance Group Inc. (the “Corporation”) have been prepared by and are the responsibility of management. The unaudited condensed interim financial statements have not been reviewed by the Corporation’s auditors.

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Financial Position**  
(In Canadian dollars)  
(Unaudited)

	September 30, 2023 (Unaudited)	December 31, 2022
<b>Assets</b>		
Cash	\$ 934,711	\$ 98,986
Accounts receivable	4,750,657	3,925,534
Contract asset	1,659,397	4,026,125
Prepaid expense and others	123,767	140,241
Sales tax and other receivables (Note 15)	926,896	920,191
<b>Total current assets</b>	<b>8,395,428</b>	9,111,077
Other assets and receivables (Note 4)	349,857	345,990
Property and equipment (Note 5)	1,278,835	1,246,673
Intangible assets (Note 6)	2,118,455	1,340,106
<b>Total assets</b>	<b>\$ 12,142,575</b>	<b>\$ 12,043,846</b>
<b>Liabilities</b>		
Short term borrowing (Note 7)	\$ -	\$ 730,232
Accounts payable and accrued liabilities (Note 8)	4,323,509	4,270,512
Current portion of long-term borrowings (Note 9 & 15)	728,531	709,588
Current portion of lease obligation (Note 11)	231,552	202,075
Contract liabilities	2,237,537	593,358
<b>Total current liabilities</b>	<b>7,521,129</b>	6,505,765
Convertible debentures (Note 10 & 15)	2,043,602	1,995,393
Long-term borrowings (Note 9 & 15)	4,573,202	4,927,463
Lease obligation (Note 11)	949,574	999,581
Long-term provisions	-	13,680
Post-employment benefits plans	200,502	204,715
Research tax credit	30,475	30,803
<b>Total liabilities</b>	<b>15,318,484</b>	14,677,400
<b>Shareholders' equity</b>		
Share capital (Note 12)	4,890,766	4,890,766
Contributed surplus	1,430,496	1,430,496
Equity component of convertible debentures (Note 10)	173,314	173,314
Accumulated other comprehensive loss	(315,746)	(243,060)
Deficit	(9,354,739)	(8,885,070)
<b>Total shareholders' equity attributable to common shareholders</b>	<b>(3,175,909)</b>	(2,633,554)
<b>Total liabilities and shareholders' equity</b>	<b>\$ 12,142,575</b>	<b>\$ 12,043,846</b>

*Nature of operations and going concern (Note 1)*

*The accompanying notes are an integral part of these condensed consolidated interim financial statements*

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Loss and Comprehensive Loss**  
**For the nine-month period ended September 30**  
**(In Canadian dollars)**

	Three months ended Sep 30, 2023	Three months ended Sep 30, 2022	Nine months ended Sep 30, 2023	Nine months ended Sep 30, 2022
<b>Revenue</b>	<b>\$ 3,267,881</b>	\$ 1,108,066	<b>\$ 9,527,154</b>	\$ 2,681,052
<b>Expenses</b>				
Purchased raw material and goods	996,057	(62,283)	3,498,380	432,616
Payroll expenses and social security	308,867	337,763	1,250,801	1,758,142
Subcontractor	679,699	413,158	2,526,432	572,663
Selling, general and administrative	476,853	304,100	1,851,605	1,215,121
Property and apprenticeship taxes	24,394	15,497	61,286	48,525
Depreciation and amortization	199,022	127,122	576,553	468,174
Provision variations	(24,847)	(28,775)	(35,754)	(64,296)
	<b>607,836</b>	1,484	<b>(202,149)</b>	(1,749,893)
<b>Other expenses (income)</b>				
Foreign exchange loss (gain)	(29,808)	(238,878)	(35,793)	(218,462)
Finance costs (Note 9)	18,582	122,181	292,746	355,985
Other expense (income)	(6,349)	220,174	10,567	(81,909)
<b>Net (loss) income</b>	<b>625,411</b>	(101,993)	<b>(469,669)</b>	(1,805,507)
<b>(Loss) income per common share (Note 14) Basic and diluted</b>	<b>0.01</b>	(0.00)	<b>(0.00)</b>	(0.02)
<b>Other comprehensive (loss) income</b>				
<b>Items that will be reclassified subsequently to profit or loss</b>				
Exchange difference on translating foreign operations	(97,175)	51,565	(72,686)	(62,413)
<b>Total comprehensive (loss) income</b>	<b>528,236</b>	(50,428)	<b>(542,355)</b>	(1,867,920)

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity**  
**For the nine-month periods ended September 30**  
**(In Canadian dollars)**

	Share capital	Contributed Surplus	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (loss)	Deficit	Total
Balance December 31, 2021	4,890,766	1,442,199	458,553	(153,047)	(8,462,349)	(1,823,878)
Comprehensive loss	-	-	-	(62,413)	(1,805,507)	(1,867,920)
Balance September 30, 2022 (unaudited)	4,890,766	1,442,199	458,553	(215,460)	(10,267,856)	(3,691,798)
<b>Balance December 31, 2022</b>	<b>4,890,766</b>	<b>1,430,496</b>	<b>173,314</b>	<b>(243,060)</b>	<b>(8,885,070)</b>	<b>(2,633,554)</b>
<b>Comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72,686)</b>	<b>(469,669)</b>	<b>(542,355)</b>
<b>Balance September 30, 2023 (unaudited)</b>	<b>4,890,766</b>	<b>1,430,496</b>	<b>173,314</b>	<b>(315,746)</b>	<b>(9,354,739)</b>	<b>(3,175,909)</b>

*The accompanying notes are an integral part of these condensed consolidated interim financial statements.*

**Composite Alliance Group Inc.**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**For the nine-month periods ended September 30**  
**(In Canadian dollars)**

	<b>2023</b>	2022
	<b>(unaudited)</b>	(unaudited)
<b>Operating</b>		
Net (loss) income	\$ (469,669)	\$ (1,805,507)
Items not affecting cash:		
Depreciation and amortization	576,553	468,174
Provisions	(35,754)	(64,296)
Finance costs	279,221	355,587
Other income (expense)	-	(234,790)
Change in working capital requirement		
Change in prepaid and others	9,210	170,031
Change in trade and other receivables	1,345,223	1,425,450
Change in trade and other payables	1,993,874	139,817
<b>Net cash provided by (used in) operating activities</b>	<b>3,698,658</b>	<b>434,466</b>
<b>Investing</b>		
Acquisition of property and equipment	(93,808)	(12,480)
Acquisition of intangible assets	(1,158,611)	(818,325)
<b>Net cash used in investing activities</b>	<b>(1,252,419)</b>	<b>(830,805)</b>
<b>Financing</b>		
Repayment of borrowings	(499,880)	(362,611)
Repayment of lease obligation	(188,443)	(158,796)
Grant received	-	313,771
<b>Net cash (used in) provided by financing activities</b>	<b>(688,323)</b>	<b>(207,635)</b>
<b>Effect of exchange on cash</b>	<b>(191,959)</b>	<b>(111,694)</b>
<b>Net increase (decrease) in cash</b>	<b>1,565,957</b>	<b>(715,668)</b>
Cash and cash equivalents, beginning of period	(631,246)	2,070,582
<b>Cash and cash equivalents, end of period</b>	<b>\$ 934,711</b>	<b>\$ 1,354,914</b>

*The accompanying notes are an integral part of these condensed consolidated interim*

## **1. NATURE OF OPERATIONS**

Composite Alliance Group Inc. (the “Company” or “CAG”) was incorporated on June 26, 2008 under the Business Corporations Act (Alberta). The Company completed a reverse acquisition of Techni-Modul Engineering (“TME”) on February 12, 2019. TME which is located in Coudes, France, specializes in industrial turn-key solutions by designing and manufacturing machines that it sells to customers for use in the fabrication of composite materials for the aerospace and automotive industries. In order to facilitate the Company’s role as an exclusive regional distributor, the Company set up a wholly owned subsidiary Composite Alliance Asia (“CAA”) in Hong Kong in September 2019 which has been inactive to date.

Prior to January 2, 2020, the Company owned 70% of the issued shares of Composite Alliance, Corp (“CAC”), a company registered in Delaware, US and based in Dallas, US. Effective January 2, 2020, the Company acquired an additional 20% shares from a non-controlling shareholder of CAC, giving a 90% interest in CAC. The acquisition of the additional 20% interest was accounted for as an equity transaction. Effective December 16, 2021, the Company acquired the remaining 10% shares from a non-controlling shareholder of CAC, giving a 100% interest in CAC. The acquisition of the additional 10% interest was accounted for as an equity transaction.

The Company’s shares are listed for trading on the TSX Venture Exchange (“TSXV”) under the symbol “CAG”. The Company’s registered office is located at Suite 800, 333-7 Avenue S.W., Calgary, Alberta T2P 2Z1, Canada.

### **Going concern**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) that are applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of operations. There are material uncertainties that may cast significant doubt on the validity of this assumption. The Company has generated net loss of \$469,669 (September 30, 2022 - \$1,805,507) for the nine months ended September 30, 2023, and as of that date, has an accumulated deficit of \$9,354,739 (December 31, 2022 - \$8,885,070). The Company’s ability to continue as a going concern is dependent on continued support from related parties, generating a profit from operations, and obtaining additional financing as required. For this quarter, the company has turnaround a net income and management is optimistic that this trend will be sustained in the following months

The Company is taking proactive steps to improve its profitability, including exploring new revenue streams and developing new products. The Company has confirmed \$20.3 million worth of orders from its customers for this fiscal year, which gives confidence in its ability to generate sufficient revenues to meet its obligations on a timely fashion. Furthermore, the Company does not foresee any significant risk in collecting its accounts receivable, which provides further comfort in its ability to materialize cash inflows.

While there is no guarantee that the Company will continue to receive significant orders or be successful in all of its growth initiatives, management believes that its current actions will help to improve its long-term viability. The Company remains committed to monitoring its financial position and taking necessary actions to address any future financial challenges. If it is unable to generate sufficient revenue or obtain additional financing, the Company may be forced to curtail or cease its operations, which could have a material adverse effect on its financial condition and results of operations. These condensed consolidated interim financial statements do not reflect adjustments in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications that would be necessary if the going concern assumption were not appropriate. These adjustments could be material.

## **2. STATEMENT OF COMPLIANCE**

These unaudited condensed consolidated interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting using accounting policies consistent with IFRS issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on November 22, 2023.

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

These condensed consolidated interim financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2022.

These unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis. All financial information is reported in Canadian dollars, unless otherwise noted.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 2 of the December 31, 2022 audited consolidated financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements follow the same accounting policies as outlined in the audited financial statements for the year ended December 31, 2022, except for the adoption of the following accounting standards effective January 1, 2023:

The amendments to IAS 1, Presentation of Financial Statements, clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments also require an entity to disclose its material accounting policies rather than its significant policies. The adoption of this amendment did not have a material measurement or disclosure impact on the Company's condensed consolidated interim financial statements.

The amendments to IAS12, Income Taxes, require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. These will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable, these amendments attempt to uniform the approach taken. The adoption of this amendment did not have a material measurement or disclosure impact on the Company's condensed consolidated interim financial statements.

**4. OTHER ASSETS AND RECEIVABLES**

Other assets and receivables consist of:

	<b>September 30, 2023</b>		December 31, 2022
Long term investments	\$ 545	\$	551
Deposit and guarantees	<b>56,595</b>		57,205
Amount receivable from shareholder (Note 15)	<b>292,717</b>		288,234
	<b>\$ 349,857</b>	\$	345,990

Amount receivable from shareholders bears no interest and has no terms of repayment.

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

**5. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>December 31, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>Foreign Exchange</b>	<b>September 30, 2023</b>
Right of use assets	2,041,055	180,566	(116,036)	(22,947)	2,082,638
Technical facilities, equipment and industrial tools	713,174	21,985	-	(8,007)	727,152
Leaseholds and furniture	297,671	71,823	-	(4,496)	364,998
<b>Cost</b>	<b>3,051,900</b>	<b>274,374</b>	<b>(116,036)</b>	<b>(35,450)</b>	<b>3,174,788</b>

<b>Depreciation</b>	<b>December 31, 2022</b>	<b>Additions</b>	<b>Reductions</b>	<b>Foreign Exchange</b>	<b>September 30, 2023</b>
Right of use assets	883,058	190,768	(112,958)	(10,859)	950,009
Technical facilities, equipment and industrial tools	657,780	16,033	-	(7,307)	666,506
Leasehold and furniture	264,389	17,090	-	(2,041)	279,438
<b>Depreciation</b>	<b>1,805,227</b>	<b>223,891</b>	<b>(112,958)</b>	<b>(20,207)</b>	<b>1,895,953</b>

<b>Net tangible assets</b>	<b>1,246,673</b>	<b>50,483</b>	<b>(3,078)</b>	<b>(15,243)</b>	<b>1,278,835</b>
----------------------------	------------------	---------------	----------------	-----------------	------------------

<b>Cost</b>	<b>December 31, 2021</b>	<b>Additions</b>	<b>Disposals</b>	<b>Foreign Exchange</b>	<b>December 31, 2022</b>
Right of use assets	1,125,799	941,130	(79,060)	53,186	2,041,055
Technical facilities, equipment and industrial tools	697,555	11,720	-	3,899	713,174
Leaseholds and furniture	295,332	809	-	1,530	297,671
<b>Cost</b>	<b>2,118,686</b>	<b>953,659</b>	<b>(79,060)</b>	<b>58,615</b>	<b>3,051,900</b>

<b>Depreciation</b>	<b>December 31, 2021</b>	<b>Additions</b>	<b>Disposals</b>	<b>Foreign Exchange</b>	<b>December 31, 2022</b>
Right of use assets	698,845	210,825	(39,400)	12,788	883,058
Technical facilities, equipment and industrial tools	624,754	28,531	-	4,495	657,780
Leasehold and furniture	234,484	27,193	-	2,712	264,389
<b>Depreciation</b>	<b>1,558,083</b>	<b>266,549</b>	<b>(39,400)</b>	<b>19,995</b>	<b>1,805,227</b>

<b>Net tangible assets</b>	<b>560,603</b>	<b>687,110</b>	<b>(39,660)</b>	<b>38,620</b>	<b>1,246,673</b>
----------------------------	----------------	----------------	-----------------	---------------	------------------

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

**6. INTANGIBLE ASSETS**

<b>Costs</b>	<b>December 31, 2022</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>September 30, 2023</b>
Development costs	5,922,490	1,158,611	(84,731)	6,996,370
Software	93,948	-	(1,001)	92,947
Concessions, patents and distribution rights	829,830	-	(3,853)	825,977
<b>Costs</b>	<b>6,846,268</b>	<b>1,158,611</b>	<b>(89,585)</b>	<b>7,915,294</b>

  

<b>Amortization</b>	<b>December 31, 2022</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>September 30, 2023</b>
Development costs	4,838,237	276,539	(56,701)	5,058,075
Software	7,540	-	(80)	7,460
Concessions, patents and distribution rights	660,385	75,025	(4,106)	731,304
<b>Amortization</b>	<b>5,506,162</b>	<b>351,564</b>	<b>(60,887)</b>	<b>5,796,839</b>

  

<b>Net intangible assets</b>	<b>1,340,106</b>	<b>807,047</b>	<b>(28,698)</b>	<b>2,118,455</b>
------------------------------	------------------	----------------	-----------------	------------------

<b>Cost</b>	<b>December 31, 2021</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>December 31, 2022</b>
Development costs	5,196,379	664,937	61,174	5,922,490
Software	85,166	7,944	838	93,948
Concessions, patents and distribution rights	828,152	-	1,678	829,830
<b>Cost</b>	<b>6,109,697</b>	<b>672,881</b>	<b>63,690</b>	<b>6,846,268</b>

  

<b>Amortization</b>	<b>December 31, 2021</b>	<b>Additions</b>	<b>Foreign Exchange</b>	<b>December 31, 2022</b>
Development costs	4,560,331	243,151	34,755	4,838,237
Software	6,433	1,020	87	7,540
Concessions, patents and distribution rights	559,226	98,932	2,227	660,385
<b>Amortization</b>	<b>5,125,990</b>	<b>343,103</b>	<b>37,069</b>	<b>5,506,162</b>

  

<b>Net intangible assets</b>	<b>983,707</b>	<b>329,778</b>	<b>26,621</b>	<b>1,340,106</b>
------------------------------	----------------	----------------	---------------	------------------

**7. SHORT-TERM DEBT**

The balance of \$nil (December 31, 2022 – \$730,232) was a bank overdraft outstanding as of September 30, 2023. The following facilities are available to the Company as of September 30, 2023 and December 31, 2022:

- i) Credit facility for an aggregated amount of €1,345,596 (CAD \$1,924,741 unsecured, due on maturity of invoices issued to its customers and bears weighted average interest at 1-month Euribor rate plus 1.80% per annum. (December 31, 2022 – €1,345,596 at 1-month Euribor rate plus 1.80% per annum). This facility

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
**(In Canadian dollars)**

will be used to finance its working capital prior to the delivery of goods to its foreign customers. As at September 30, 2023, CAD \$nil (€nil) was outstanding on this facility (December 31, 2022 – CAD \$nil (€nil)).

- ii) An aggregate bank guarantees up to a maximum of €1,200,000 (CAD \$1,716,480) for advanced payment refunds for its foreign customers that are due on demand, bear weighted average interest at 1.76% per annum (December 31, 2022 – €1,200,000 at 1.76% per annum). These facilities will be used when the Company must produce letters of guarantees of restitution of deposit, good execution of contract or retention of guarantee for its foreign customers. As at September 30, 2023, there were \$1,821,471 (€1,076,800 and USD \$208,000) guarantees outstanding (December 31, 2022 - \$443,442 (€111,860 and USD \$208,000)).
- iii) An aggregate foreign exchange cover line up to a maximum of €3,500,000 (CAD \$5,006,400) (December 31, 2022 – €3,500,000). As at September 30, 2023, CAD \$nil was outstanding on this facility (December 31, 2022– CAD \$2,588,461 (€1,500,000 and USD \$309,924)).

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Trade payable	\$ 3,437,897	\$ 3,081,113
Social security payable	478,966	484,123
Value added tax payable	61,256	61,916
Other liabilities	345,390	643,360
	<b>\$ 4,323,509</b>	<b>\$ 4,270,512</b>

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 0.25%. The loan has been extended, bears interest at 0.70%-0.74% with interest only payment up to February 2023, after which monthly blended payment of €21,144 and matures on February 2, 2027	\$ 1,206,579	\$ 1,445,800
Loan denominated in Euro is unsecured, bears interest at 1.70%, Interest only payments and matures on January 31, 2026*	1,265,781	1,252,728
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025 *	539,957	521,623
Loan denominated in Euro is guaranteed by the French government "PGE", bears interest at 1.00%, monthly blended payment of €9,425 and matures on May 20, 2026	425,494	548,993
Loan denominated in USD is unsecured, bears interest at 2.00%, Interest only payments and matures on October 7, 2026*	400,191	385,360
Loan denominated in CAD is unsecured, bears interest at 2.00% per annum, and with interest only payments and matures on November 15, 2025 *	377,541	309,498

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

Loan denominated in Euro is guaranteed by the French national fund guarantee "Garantie Atout PME", bears interest at 2.50%, quarterly payment of €30,555 plus interest and matures on May 31, 2025	<b>305,955</b>	441,779
Loan denominated in CAD is unsecured, bears interest at 2.00%, Interest only payments and matures on January 31, 2026*	<b>349,767</b>	335,878
Loan denominated in USD is unsecured, non-interest bearing and with no repayment term*	<b>98,696</b>	98,871
Loan denominated in CAD is unsecured, non-interest bearing and matures on January 18, 2024	<b>40,000</b>	40,000
Loan denominated in Euro is unsecured, bears interest at 0.95%, monthly blended payment of €4,228 and matures on March 4, 2023	-	18,309
	<b>5,009,961</b>	5,398,839
Add: accrued interest	<b>291,772</b>	238,212
	<b>5,301,733</b>	5,637,051
Less: current portion	<b>(728,531)</b>	(709,588)
	<b>\$ 4,573,202</b>	\$ 4,927,463

**9. LONG-TERM BORROWINGS**

\* These are loans with related parties.

Principal repayments are as follows:

Remaining of 2023	\$	171,751
2024		729,562
2025		1,667,883
2026		2,587,368
2027		41,962
Thereafter		103,207
	<b>\$</b>	<b>5,301,733</b>

The Company obtained bank financing of \$40,000 through Canada Emergency Business Account ("CEBA") during the year ended December 31, 2020. It is an interest-free loan until December 31, 2023. Repaying the loan on or before December 31, 2023, will result in loan forgiveness of \$10,000. If the loan is not repaid by December 31, 2023, (date extended to Jan 18, 2024) it will be extended for an additional 3-year term with no specific principal repayment until maturity, bearing interest at 5% per annum. Management has determined that the Company will be able to meet the repayment requirement by December 31, 2023, therefore, has recognized the forgivable portion of the loan of \$20,000 as other income during the year ended December 31, 2020. The Company obtained an additional \$20,000 through CEBA during the year ended December 31, 2021. Repaying the loan on or before December 31, 2023, will result in additional loan forgiveness of \$10,000. Management has recognized the forgivable portion of the loan of \$10,000 as other income during the year ended December 31,

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

2021. As at January 12, 2022, the federal government extended the repayment deadline for CEBA loan to qualify for partial loan forgiveness from December 31, 2022 to December 31, 2023. As at September 14, 2023, the federal government further extended the repayment deadline for CEBA loan to qualify for partial loan forgiveness from December 31, 2023 to January 18, 2024. The outstanding loan will subsequently convert to a two-year term loan with interest at 5% per annum if the Company repays the loan by January 18, 2024.

The components of finance costs are as follows:

	<b>September 30, 2023</b>	September 30, 2022
Interest on long-term borrowings	\$ 68,119	\$ 69,466
Accretion on long-term borrowings	142,605	141,201
Interest on leases	44,056	27,858
Interest on convertible debentures	32,587	30,610
Accretion on convertible debentures	38,200	63,009
Interest on short-term borrowing and others	(32,964)	23,841
	<b>\$ 292,603</b>	<b>\$ 355,985</b>

## 10. CONVERTIBLE DEBENTURES

The Company completed a series of private placements of convertible unsecured debentures between December 2016 and March 2017. A total of 31,915 bonds were issued at €47 each, for a total principal amount of €1,500,005 (CAD \$2,187,457), to a shareholder of the Company. The convertible debentures accrue interest at 3% per annum, mature in December 2022. All or any of the debentures are convertible by the holder into common shares of TME at a conversion price of €18.16 per share at any time prior to the maturity date, or at any time after the maturity date if and only if the Company has failed to repay the full amount of the debentures at maturity. The early conversion prior to the maturity date is subject to approval by TSXV. The value of the conversion option was calculated by subtracting the net present value of the debenture from the face value of the convertible debenture. The net present value of the debenture was calculated using a discount rate of 8%. An amount of CAD \$1,651,352 (€1,132,382) and CAD \$553,346 (€367,623) was allocated to the liability and equity component of the convertible debenture respectively.

Effective December 31, 2022, the Company reached an agreement with the holder of the convertible debentures, who is a related party, to forgive interest accrued up to December 31, 2022. The net present value of the debenture was calculated using a discount rate of 4.75%. Accrued interest of \$32,587 has been recorded as finance costs for the nine months ended September 30, 2023. Accretion expense of \$38,200 was recorded as finance costs accrete the liability to its principal amount.

## 11. LEASE OBLIGATION

The Company has a number of property rental and movable property rental leases whose maturity goes from May 2024 to January 2031. The leases have an incremental borrowing rate ranging from 2 to 5% and interest expense for the period ended September 30, 2023, was \$44,056 (September 30, 2022 - \$27,858).

	<b>September 30, 2023</b>	December 31, 2022
Balance, beginning of period	\$ 1,201,656	\$ 439,119
Additions	180,566	931,249
Lease payments	(188,443)	(210,825)
Foreign exchange	(12,653)	42,113
	<b>1,181,126</b>	<b>1,201,656</b>

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

Less: current portion		(231,552)		(202,075)
	\$	949,574	\$	999,581

Future lease payments are as follows:

Less than one year	\$	283,795
1-3 years		529,217
3-5 years		282,572
More than 5 years		256,994
		1,352,578
Less: finance costs		(171,452)
	\$	1,181,126

## 12. SHARE CAPITAL

**Authorized:** an unlimited number of voting common shares, no par value  
an unlimited number of preferred shares, no par value

**Shares issued:**

Common Shares	Number of shares	Amount (\$)
<b>Balance September 30, 2023 and December 31, 2022</b>	<b>110,233,610</b>	<b>4,890,766</b>

## 13. OPTIONS

The Company has an equity settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

The following tables summarize information about stock options outstanding as at:

	September 30, 2023		December 31, 2022	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Opening	-	\$-	2,400,000	\$0.125
Expired	-	\$-	(2,400,000)	(\$0.125)
<b>Closing</b>	<b>-</b>	<b>\$-</b>	<b>-</b>	<b>\$-</b>

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

**14. NET LOSS PER COMMON SHARE**

	<b>Nine months ended September 30, 2023</b>	Nine months ended September 30, 2022
Net loss	\$ (469,669)	\$ (1,805,507)
Weighted average number of common shares – basic and diluted	<b>110,233,610</b>	110,233,610

**15. RELATED PARTY TRANSACTIONS AND BALANCES**

Key management includes all persons named or performing the duties of Chief Executive Officer, Chief Financial Officer, President, Vice-President and Directors of the Company. The compensation paid or accrued to key management for services is shown below:

	<b>Nine months ended September 30, 2023</b>	Nine months ended September 30, 2022
Director fees to non-executive directors	\$ 7,000	\$ 5,250
Salaries	<b>557,439</b>	613,978

The following is a summary of the Company's other related party transactions during the period:

	<b>Nine months ended September 30, 2023</b>	Nine months ended September 30, 2022
Real property leases paid to a company controlled by a director of the Company	\$ 84,170	\$ 94,531
Finance cost paid or accrued to a company controlled by a director of the Company	<b>39,108</b>	47,089
Finance cost paid or accrued to two of the directors of the Company	<b>9,873</b>	9,873
Professional fees paid to a partnership controlled by a director of the Company	<b>44,295</b>	14,252
General administrative fee paid to a company controlled by a former officer of the Company	<b>40,602</b>	7,857
General administrative fee paid to a company controlled by an officer of the Company	<b>36,225</b>	-
Commission expense paid or accrued to two companies controlled by two directors of the Company	<b>301,277</b>	25,163

**Composite Alliance Group Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**September 30, 2023**  
(In Canadian dollars)

The following is a summary of financial instruments held by related parties:

	<b>September 30, 2023</b>	December 31, 2022
Receivable from a company controlled by a director of the Company	<b>\$ 292,717</b>	\$ 288,234
Convertible debentures issued to a company controlled by a director of the Company	<b>2,043,602</b>	1,895,966
Long term borrowing advanced from a company controlled by a director of the Company	<b>1,381,692</b>	1,351,599
Long term borrowing advanced from a company controlled by an officer of the Company	<b>1,438,848</b>	1,369,831
Long term borrowing advanced from companies controlled by two of the directors of the Company	<b>498,656</b>	515,490
Trade receivable from a company in which the key management personnel is a shareholder of the Company with significant influence, relates to research and development activities performed.	<b>286,080</b>	289,160

In addition to the above, on October 8, 2021, the Company entered into a machine development agreement (the "Agreement") with a company owned by a direct family member of a key management personnel of the Company. The related company agreed to contribute €600,000 (the "Contribution") toward the development and construction of the first machine. The Contribution is non-refundable and has been applied against costs incurred. As part of the Agreement, the Company will pay a 30% commission for the first two machines and 15% commission for the third to the seventh machines sold to the end customers. Any machine sales subsequent to the seventh sales require no payment of commission. The commission is due in the same term as the payment term between the Company and the end customer. As at September 30, 2023, €100,000 (CAD \$143,040) of the consideration is receivable from the related party and has been reflected with sales tax and other receivables. Subsequent to December 31, 2022, both parties amended the terms of the agreement. As a result of the amendment, the commission for the first machine will be waived. The Company will pay a commission of €200,000 per machine for the second to the fourth machine and €165,000 for the fifth machine sold to the end customer.